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SUBJECT: ARGENTINE CONGRESS DEBATES AG EXPORT TAX

REF: (A) Buenos Aires 0866 (B) Buenos Aires 0842 (C) Buenos Aires
0834 (D) Buenos Aires 0829 and previous

11. (SBU) Summary: The Kirchner government's majority in the Argentine Congress appears to be fracturing over the GOA's request for approval of the variable export tax regime for grains and oilseeds. The GOA continues to insist that the Congress approve the export tax regime currently in place without changes, although it is now indicating a willingness to make additional modifications in its program to reimburse part of the export tax to small and medium producers. It appears unlikely that the GOA will gain approval of the export tax without changes, and various proposals to modify the export tax are circulating among congressional representatives of the ruling coalition and the opposition. End Summary.

State of Play

12. (SBU) When President Cristina Fernandez de Kirchner (CFK) announced June 17 that she was submitting to the Argentine Congress legislation authorizing the export tax regime for grains and oilseeds, she and her Victory Front (FPV) allies enjoyed a majority in both houses. In the face of Nestor Kirchner's insistence that the Congress ratify the export tax regime decreed by the GOA on March 11, there are increasing indications of insufficient support in Congress to approve the controversial measure without modifications. In a concession to these pressures, the GOA has indicated a willingness to revise the current compensation scheme for medium and small producers, but continues to insist that the basic export tax regime is untouchable.

13. (SBU) Pressure to modify the export tax system is coming from both the opposition and from within the ruling coalition. The government's bill is currently under consideration by the Agriculture and Budget Committees in the Chamber of Deputies. An alternative proposal is being circulated by Peronist Deputy Felipe Sola, a member of the ruling coalition who may hold a grudge against the Kirchners for their 2007 decision not to support his re-election as governor of Buenos Aires. (Sola is also reportedly close to former President Duhalde who is widely reported to be trying to cobble together an anti Kirchner coalition for the 2009 legislative elections.) Sola's proposal would maintain the variable tax, but modify it to reduce the current export tax from 47 percent to 40.7. This proposal reportedly has the support of 60 deputies, close to half the ruling coalition's representatives in Congress, and may win the support of opposition members who are also considering competing proposals to reduce the tax even more. The GOA has not presented publicly economic arguments or fiscal imperatives for keeping intact its sliding scale of duties.

Suspicious of Penguins Bearing Gifts

¶4. (SBU) Farm groups continue to insist on a reduction of the export tax to the level prior to March 2008 (35 percent), but have indicated a willingness to accept a variable component to the export tax. The GOA is reportedly offering to increase compensation for small and medium producers in order to gain the support from the most vocal and numerous sector in the farm protest (and to split the united front presented by the producers). Producers are very suspicious of the government's offer, however, due to difficulties in collecting similar payments in the past. Local newspaper Clarin reports that only five producers have managed to qualify for the existing export tax reimbursement program for small producers announced in April and producers have experienced similar problems with other subsidy programs implemented by the GOA in the past. One local contact, a large poultry producer, reported to the Agricultural Counselor last week that the government is overdue on paying him over US\$10 million in subsidies for poultry production, and the conditions of the program force him to sell domestically at a loss. Small and medium producers face even larger barriers in receiving government payments.

¶5. (SBU) Farm groups, recognizing that the legislative process may drag, are requesting the GOA suspend the increased export duties for 180 days or at least until the Congress has voted on the measure. At present, there appears to be little prospect that the GOA will accede to this demand.

Pressure on Input Suppliers

¶6. (SBU) The GOA has also stepped up pressure on agricultural input suppliers to hold down prices, responding to complaints by producers about rising costs. The associations representing agricultural input suppliers received a call from Secretary of Internal Commerce Moreno on June 26 informing them that input suppliers are not allowed to increase input prices without authorization from the Secretariat of Internal Commerce.

Comment

¶7. (SBU) Argentine legislators are known to be more responsive to their political bosses than to their constituents. In this case, however, deputies and senators belonging to the Kirchners' FPV coalition, particularly those from Argentina's grain belt, appear to be feeling heat back home, and some may buck the government's demand for party discipline. They are undoubtedly concerned about the consequences that their votes might have in the 2009 legislative elections. If the government continues to hang tough and loses, the resulting intra-coalition insurrection will severely weaken the Kirchner government's authority. There is still space for the government to show a little more flexibility and find a solution where all sides can claim victory. It is not clear yet how this will turn out.

WAYNE